

DETERMINANTS OF SUCCESS OF FOOD RESTAURANT FRANCHISING

by

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DEDICATION

With love and appreciation to

To my family –

My beloved father Ooi Peng Soo; My mother, Yap Bean Eng,

My brothers and family (Hoo, San, Min, Teik and Huat)

My sister, Ooi Ah Peng and family.

And

Mr. Ho Kee Thong

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ABSTRAK

Kajian ini telah dilaksanakan dengan tujuan untuk meninjau perhubungan antara tujuh faktor yang menentukan kejayaan francais dengan pencapaian restoran. Antara tujuh faktor yang dimaksudkan ialah latar belakang francais atau pengurus, sokongan keluarga, ketegasan syarat dalam perjanjian, perhubungan and komunikasi, lokasi, strategi pemasaran, aduan tentang makanan dan perkhidmatan yang diterima oleh pelanggan. Data ini telah dikutip menerusi soal selidik. Sebanyak 160 soal selidik telah diedarkan di sekitar pasaraya, bahagian utara dan tengah Semenanjung Malaysia; sebahagian menerusi pos dan media elektronik. Daripada itu, hanya 71 telah dikembalikan.

Penemuan kajian menunjukkan perhubungan baik antara francaisor-francaisi atau pengurus restaurant-pengurus daerah, lokasi (di tempat tumpuan penduduk) dan strategi pemasaran (pengiklanan) adalah antara faktor-faktor utama menentukan kejayaan pencapaian restoran. Faktor-faktor seperti latar belakang francais atau pengurus, sokongan keluarga, ketegasan syarat dalam perjanjian, kekerapan lawatan francaisor / pengurus daerah, lokasi di pasaraya utama dan aduan tentang makanan dan perkhidmatan yang diterima daripada pelanggan didapati di luar jangkaan bukannya penentu utama terhadap kejayaan francais. Walau bagaimanapun, ia merupakan langkah permulaan, kajian ini amatlah penting dan bermakna terutama untuk membina pengetahuan akademik bahkan juga amalan francais. Sumbangan francais dalam pembangunan ekonomi negara adalah amat bermakna.

ABSTRACT

The principal aim of this study is to investigate the relationship between seven broad variables or factors that determine the success of food restaurant franchisees, namely franchisee' s or plant manager' s background, family support, strictness of terms and conditions, relationship and communications, outlet location, marketing strategy and complaints on food and services. Data was collected by means of questionnaire survey. A total of 160 questionnaires were distributed personally to major shopping complexes in Northern and Middle parts of Peninsular Malaysia; some were distributed through the post and electronic media. From these, 71 were collected back.

The results of this study show that close relationship between franchisor-franchisee or area manager-plant manager, location (larger population base) and marketing strategy (advertising) are the major factors contributing to the success of food restaurant franchising. However, franchisees' or plant managers' background, family support, strictness of terms and conditions, frequent visit of franchisor or area manager, location in malls and complaints on food and service are surprisingly not found to be major factors to determine the success of franchise outlets. Thought, at initial stages, these findings are very crucial and beneficial especially for academic as well as practical purposes. The contribution for franchises for the growth of the economy of Malaysia has been meaningful.

Chapter 1

INTRODUCTION

1.1 Introduction

Dr. Robert T Justis from Louisiana State University mentioned:

“The recent wave of franchising growth is expanding across customer wants and country borders. Franchising has emerged as the fastest growing method of doing business throughout the world today”.

Dr. Mahathir Mohamad, Prime Minister of Malaysia had stated, “... franchising was the fastest, most effective and productive way to expand business in the world as in franchising, all the promotions have been done as the brand names were already famous and the location of the outlets are usually strategic ... all a person has to do is to put in extra efforts to succeed.” (Malaysian Franchise Association, 2000). Hence, this raises an interesting question: what determines the success of franchise system? Before we find the answer for this question, the following section will further investigate the worldwide growth of franchising and franchising in Malaysia. Research problem, purpose of study, research questions and significance of the study would be presented in Sections 3, 4, 5 and 6 respectively. A brief discussion regarding food franchising in Malaysia will be done in Section seven. In Section eight, some important terms concerning franchising would be presented. In section 9, organization of remaining chapters will be presented.

1.2 Background of the Study

FRANCHISE is a business system, which was said to originate from Europe, but expanded rapidly to the United States of America more than 100 years ago. The word franchise came from the French word “franco or franchir” which means

freedom. Previously, a franchisee was an important person, given the right and freedom to ensure the implementation of instruction and regulations including making assessments and tax collections in certain territories. The concept and approach was later adapted and employed in both commerce and private sectors. Franchising grew rapidly and globally especially in the US and the 13 European countries. Elsewhere, franchising is also very popular. Japan now has the third greatest number of franchise outlets in the world after Canada and US.

In recent years Malaysia became a popular destination for international franchisors. Since then, the franchise industry has grown steadily. In 1995 there were only 125 franchise systems. Today, there are 268 franchise systems with about 6,000 franchisees (New Straits Times, 25/Aug/2001). According to Malaysia Franchise Association (FMA), there are still a lot of untapped opportunities in the local franchising sector, some of which are huge enough to generate income worth millions of ringgit every month. The government is making efforts to encourage the growth of both international (master franchise) and local franchisors.

Realizing the important role of franchising in the Malaysian economy, the Malaysian government has designated year 2001 as: Franchising Year 2001, and boasts the country as the top choice among franchisors and investors in the region, soon to rival Japan.

Malaysian government is actively promoting and encouraging franchising. There are two major organizations to enhance the achievement of franchise in Malaysia, namely Ministry of Entrepreneur Development (MED) and Malaysian Franchise

Association (MFA). This is clearly evident when the Ministry sets up a \$25 million franchise fund to provide financial assistance to franchisors and franchisees. The MFA aims to double the number of franchisors in the retail industry in five years under the Eighth Malaysia Plan by “intensifying efforts to identify potential franchisors.” (Zeidman & Brennan, 2001).

Among the 148 franchise businesses, food business made up the largest segment of the franchise industry. It accounted for 33 percent or 49 of 148 franchise businesses (Malaysia Franchise Association, 2000). In view of the importance of food business in the Malaysian economy, food franchising has been chosen as the population identified for this research.

1.3 Research Problem

Many studies had been conducted on franchising. However, a study on the determinants of success factors of food franchise business is very limited. Two studies, which focused on this topic are a study conducted by Shane (1998) on a cohort of 157 new franchisors in the United States and Fenwick and Strombom (1998) which focused on a well-established retail sports good franchise in New Zealand.

In Malaysia there had been many seminars conducted by Malaysian government and organizations regarding topics such as “How to Franchise: Developing The Franchise System”, “Master Franchising In Malaysia”, “Success, and Future Trends in Franchising” and etc. However, it is very hard to find empirical research on franchising especially on topic of “Determinants of Success of Food Franchising in Malaysia”.

Franchisees' organizations achieve different results from their operations. The literature seems to suggest that their performance is related to various factors such as the individual franchisee background, family support, the relationship with the franchisor, the location, marketing strategies, etc. Yet not much empirical research has been done in this area.

Thus, this study is intended to examine the factors that contribute to the success of franchisee organizations in Malaysia. This study will specifically focus on food franchising in Malaysia.

1.4 Purpose and Objectives of the Study

The purpose of this study is to examine factors which determine success of food franchising. The objectives of this study are to determine whether franchisees' educational background, family support, strictness of terms and conditions, relationship, strategic outlet location, marketing strategy and complaints on food and service are positively related to venture performance.

1.5 Research Questions

The questions raised in this study are:

1. What are the factors that determine success of food franchising?
2. How are the franchisees' and the plant managers' educational background, family support, strictness of terms and conditions, relationship, strategic outlet location, marketing strategy and complaints on food and service related to venture performance?

1.6 Significance of the Study

Findings of this study may bring advantages and benefits to several parties in the field namely: franchisors or master franchisees, franchisees or new marketers and academic purposes. Practically, findings of this study will help franchisors in selecting the right franchisees with regards to their educational background, etc. Subsequently, the study is also important to marketers or new businessmen or businesswomen who intend to invest especially in franchising system to understand the importance of basic qualification to run a business, selecting locations for outlets; the set up of internal systems and effective communication.

For both franchisors and franchisees or master franchisees and plant managers, the findings of the research will establish the need to enhance relationship between franchisors-franchisees and master franchisees-plant managers in establishing long-term business relationship. Besides, findings of the research will shed light on the importance of the marketing strategy in terms of products, brand name / quality, advertisement / promotion and price of the product. In addition, conducting this study using Malaysian subjects would enlarge the study of franchising in different socio-cultural contexts. All of these would help to expand the existing body of knowledge on franchising system especially in Malaysia.

1.7 Food Franchising in Malaysia

Franchise businesses in Malaysia have recorded impressive growth over the years. This is reflected by the number of homegrown franchise products registered with the Ministry of Entrepreneur Development (MED), which surged from 11 products in 1994 to 78 as at 31st December 1999, a hefty 85.8% increase.

The food business made up the largest segment of the franchise industry, which accounted for 33% or 49 of 148 franchise businesses in Malaysia. The other 67% are from art media, automotive, beauty & health, book store, childcare / kindergarten, cleaning services, clinics, clothing, computer education, consultancy, courier service, electrical shop, home furnishing, hospitality, launderette, photo shop, telephone shops, travel agency, video shop and etc.

1.8 Definitions of Key Terms

Franchise

The International Franchise Association defines franchise as: Continuing relationship in which the franchisor provides a licensed privilege to do business, provide assistance in organizing, training, merchandising and management in return for a consideration from the franchisee. Whereas, Webster's Encyclopedia defines it as: "A franchise is permission granted by a manufacturer to a distributor or retailer to sell his / her products and the territory to which such permission extends" (Gove & Webster, 1971).

In short, franchise is a method of marketing and distributing based on a two-party relationship; that is the franchisor (the owner and granter of right) and the franchisee (recipient of right) relationship. The right granted is for the purpose of running the business by using the trademark or trade name based on a specific system, at specific location or area within a specified period of time (Awalan Abdul Aziz, 1999). This is a legal agreement that allows one organization with a product, idea, name or trademark to grant certain rights and information about operating a business to an independent businessman owner. In return the business owner (franchisee) pays a fee and royalties to the owner (franchisor).

Franchising

Franchising refers to a legal arrangement that binds the franchisee and franchisor contractually. It seeks to balance the interests of two independent businesses in order to satisfy mutual goals. There are 4 basic types of business franchising namely:

a) Product franchise

A manufacturer grants a store owning like authority to distribute goods by the manufacturer, and allows the owner to use the name and trade mark owned by the manufacturer. The storeowner must pay a fee or purchase minimum inventory of store in return for those rights. A form of franchising system adapted by the soft drink manufacturers, such as Coca-cola, who engage a local area Franchise Owner to manufacture under license, as well as to distribute the end product using the marketing systems developed by the franchisor company.

b) Manufacture Franchises

This provides with the right of manufacturing a product and sells it to the public, using the franchisor's name and trade mark is usually found in food and beverage industry.

c) Business Opportunity Ventures

A venture where typically require a business owner, purchase and distribute the products for one special company. The company must provide custody and in return the businessman owner pays a fee or other consideration or compensation rendering machine route and distributorships.

d) Business Format Franchising

In this arrangement a company provides a business owner with a proven method for operating a business using the name and trademark of the company. The company will usually provide a significant amount of assistance to the business owner in starting and managing the company. The business owner pays a fee in return. Typically, a company also requires the owner to purchase supplies from the company.

This is the most commonly recognized franchise in Malaysia. A quick run through some of the companies involved in this area would include such household names as McDonalds, Kentucky Fried Chicken, Pizza Hut and 7-Eleven Stores.

Franchisor

The franchisor is almost always a company that has developed and thoroughly tested its business methods and has decided to increase the size of that business by offering individuals, the franchisees, the right to trade under its business name. The individual concerned pays a fee, not only for the right to trade under the name of the franchisor, but also in order to benefit from his expertise. In short, a franchisor is a company issuing or granting a franchise.

Franchisee

A franchisee is a person or company to whom the right to conduct a business is granted by the franchisor. The franchisee can be a sole trader, a partnership, or a private company. Mostly, franchisees are people who wish to run their own business but recognize the benefits of so doing under the umbrella of an

established trade name. They are, therefore, prepared to invest in the franchise in order to acquire this advantage (Fowler, 1985).

Master Franchisee

Normally a franchisor gives the right to the master franchisee for certain territories, states or countries. Where the right is given in a territory, the master franchisee has the right to set up sub-franchising either in the form of area franchisees or unit franchisees. However the master franchisee has the choice not to practice sub-franchising and expand the business on his own by opening outlets that are fully owned by him in his specific territory.

For example, Mc Donald's Corporation as the franchisor has appointed Golden Arches Restaurant Sdn. Bhd. (GARSB) as its master franchisee in Malaysia. As such GARSB has the right to open Mc. Donald's restaurants itself, as what was being done in the West Coast of West Malaysia, or appoint a franchisee, as being practiced in certain areas in the East Coast of West Malaysia, Sabah and Sarawak.

1.9 Organization of Remaining Chapters

The remaining chapters of this study are organized as follows: chapter two will present an overview of literature on franchising. Chapter three focuses on the theoretical framework and research methodology of this study. Chapter four will present the analysis of the data collected as they relate to the hypotheses and report findings of the study. Finally, chapter five provides the conclusions, discussions, implications and limitations of the study.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature related to studies in franchising and some factors that determine the success of franchising. It is divided into four main parts. The first part presents introduction to the chapter. The second part is concerned with the theories related to the subject of franchising. This is followed by an investigation on previous studies regarding the major factors that determine the success of franchise system. Finally, a brief summary will be found at the end of this chapter.

2.2 Theory

Two competing theories have been used to study franchising. First, the resource based theory or resource scarcity theory was used to study how franchisor / franchisees can use scarce resources to their best advantage. Resource constraint theory exists since it is the lack of financial and managerial resources, which is imputed as the cause for the high reliance upon franchising especially in a firm's early development (Carney & Gedajlovic, 1991). Second, the agency theory has been used to study the problems that arise when 2 or more parties participate in business ventures. Their relationships, trusting or otherwise could mean the success or failure of the venture. This study will utilize the resource based theory and agency theory because they are deemed appropriate.

The literature seems to indicate that franchisees' or the plant managers' educational background, time spent, family support, sources of food supplies, frequent visit of

franchisor or area manager to the outlet, relationship between franchisor-franchisee or area manager-plant manager, population, location, advertisement, product brand name, price and complaints on food and service are important factors in the success of food franchising.

Resource constraint theory is been utilized as most of the major hypotheses found in this study are related to scarcity of resources, for examples; education background (skill), time spent, family support (man power), frequent visit, advertisement, product's brand name, and pricing.

The factors in the hypotheses namely franchisees' or the plant managers' background (level of education), time spent, family support, sources of food supplies, product's brand name and pricing are important background characteristics as they refer to skills, managerial, labor, material resources and company internal resources; frequent visits by franchisor and area manager to the outlet and relationship between franchisor-franchisee or area manager-plant manager reflects entrepreneurial skills.

The resource scarcity theory views the importance of brand name, capital and economies of scale in promotion and advertisement, which are both functions of retail systems size. While franchisees are sources of capital and managerial expertise, growth by full ownership is limited by capital and managerial constraints. As such, it is suggested that small chains will franchise in order to ease resource constraints in their pursuit of promotional economies (Carney & Gedajlovic, 1991). Hence, product brand name or image, price and advertisement can be treated as important resources in resource-based theory.

Meanwhile, this study is also based on convention in agency theory, that is a firm's owner or franchisor is defined as the principal, and its management, typically the franchisee is defined as the agent. Both parties are assumed to be rational but have divergent self-interests that each seeks to maximize. To counter this divergence, the principal seeks to control the agent through the contract, an agreement that specifies the rights of the parties, the system for monitoring the agent's actions, and the reward structure, including the degree to which managerial incentives are aligned with the interests of the owner (Tosi, Katz & Gomez-Mejia, 1997). As agency theorists focus upon the efficiency incentives features of the franchise relationships and the problems that arise when 2 or more parties participate in business ventures, this theory will be used to verify independent variables namely population, location, advertisement and complaints. Or in others word, the strategic of location from time to time and complaints occurred are external factors or environmental problems occurred which are important features of agency theory.

2.3 Previous Research - The Determinants of Success of Franchising

There is limited research which studied the success factors of franchises. Fenwick and Strombom (1998), found that there are a few factors which influenced the success of New Zealand retail sports goods franchise. They considered franchisees' background characteristics, franchisees' managerial prior experience, venture age, strategy, population density and location and found that they are related to venture performance. The findings show that there is no relationship between franchisees' prior experience. However, the study indicates that location is a very important influence on outlet performance and must be considered on at least 2 scales, size of the market and location in mall.

Shane (1998) found empirical support for six of nine hypotheses about the linkage between mechanisms for economizing on agency costs and the survival of new franchise system. The study showed that franchisees' experience and degree of geographic concentration were not the cause of new franchisor failure. On the other hand, the complexity of the franchise system and master franchising has a significant positive effect on new franchisor failure. Another related study done by Shane and Spell (1998) regarding - Factors For New Franchise Success, based on a 12-year study of 157 companies in 27 industries. The findings indicated the following factors as important: the larger a firm, the more recognizable its brand name, offered longer term contracts with franchisees, had fewer headquarters staff people per outlet, and those more likely to register their franchise systems with state authorities. The other factor is stability of policies meaning that if the new franchisors initially established franchise systems in line with the success model, the franchisors were able to maintain the positive web of policies and increase their likelihood of survival over time.

2.3.1 Franchisees Background Characteristics

Several studies have examined the influence of the background characteristics (age, education, industry experience, venture start-up experience) of entrepreneurs and business founders on firm development and performance.

Chandler and Jansen (1992) found that both education and general managerial experience were positively related to entrepreneurial orientation for founders of independent businesses, whereas previous experience as a founder did not influence entrepreneurial competence.

According to Shane (1998), the requirement that franchisees have experience has a significant negative effect on new franchisor failure. This hypothesis strongly supported the statement that “new franchise systems which require franchisees to have experience are less likely to fail than are other new franchise systems”.

Research done by Fenwick and Strombom (1998) failed to find any relationship between franchisees' background characteristics and their self-assessed entrepreneurial competencies. Experience as a business founder is the only personal characteristic correlated with franchisees' self-assessed managerial competence. Managerial competence is positively correlated with measures of entrepreneurial competence / orientation.

2.3.2 Family support

In almost all the studies regarding family pressure on job involvement indicate that family pressure has significant impacts on job involvement. Frone (1994) concluded that job involvement was positively correlated with family satisfaction. Other recent studies (Hickins, 1998; Power, Swason, & Simpson 1998; Laabs, 1998) indicated that families and family life have significant impacts on job involvement. Arumugam (1997) found that family pressure has impacts on job involvement. However, surprisingly Kebaili Boumediene (1999) study found that family pressure does not explain the job involvement level among engineers.

Judge and Bretz (1994) conducted a study on hours worked per week and based on their survey on 873 past graduates, they found that hours worked per week was significantly and positively correlated to extrinsic career success, but not the intrinsic one.

2.3.3 Strictness of terms and condition between Franchisor-Franchisee.

Some of the sample obtained from this study is related with master franchising such as McDonald, KFC, Pizza Hut etc.– thus the relationship may liaison between master franchisee and the plant manager. Resource constraint theory suggests that the survival of new franchisors should be enhanced by passive ownership and master franchising since these policies make it easier to obtain capital and managerial resources from franchisees (Kaufmann & Kim, 1995). The empirical results in Kaufmann and Kim's study support the agency theory prediction for the effects of passive ownership and master franchising and reject the resource constraint theory prediction.

Meanwhile, finding on source of food supplies is limited. Floyd and Fenwick (1999) found that franchisees purchased inferior product components from non-franchise sources or failed to use promotional tools developed by the franchisor. Clearly, monitoring is regarded as odious, but essential in this matter. Conflict may ensue and escalates beyond reconciliation so that the franchisee may leave the system. However, relationships or networks are important resources for business success. Having, a trusting, cordial relationship with the franchisor can make a difference in times of need.

2.3.4 The franchisor-franchisee or Master Franchisee (agent Franchisee) - Plant Manager relationship

The establishment of a relationship between a franchisor and a franchisee is a critical factor to ensure the success of a franchise business system. This relationship is beyond the formality of the franchise agreement. The stamping of the regulation document often does not guarantee the understanding and harmony

of a long-term relationship. Compared to running a business all by oneself, the failure and success of a franchise business is closely related to how far parties, the franchisor, and the franchisee can carry out the responsibilities. As often said, franchising is a business that is based on a smart share and 'win-win' relationship. Therefore, preserving the mechanism and establishing the understanding between the two parties is very important (Awalan Abdul Aziz, 1999)

Indeed, the word, "franchise," is derived from the old French word, "franchir", meaning "to be free from slavery". But some critics have concluded that franchising is a modern form of long-term indentured servitude. Because franchisors usually have the upper hand, and in recognition of the typical franchisor's superior bargaining power, some statutes and case law seek to intervene in the relationship and protect the franchisee by imposing upon franchisors an obligation of good faith, including a duty not to terminate franchises except for "good cause" (Emerson, 1998).

To maintain good franchisor-franchisee relationship between the it is important for franchisor to keep helping, encouraging and monitoring franchisees from time to time. Monitoring is usually needed to ensure high inter-franchisee consistency, the essence of any strong franchised brand at all stages of development (Brickley & Dark, 1987; Falbe & Dandridge, 1992; Kaufmann & Eroglu, 1998). However, monitoring proved difficult for some franchisors early in their development due to high costs in visiting few geographically dispersed outlets.

Most respondent franchisors recognized that personal contact, usually by visit to each franchisee, was the only satisfactory way to monitor and improve

conformance by persuasion and coercion (Floyd & Fenwick, 1999). Morrison (1996), agreed that maintaining a harmonious franchisor-franchisee relationship is a major determinant of franchise system growth and success, but it is one of the most difficult and frustrating challenges in franchising (Justis, Olsen & Chan, 1993).

2.3.5 Outlet Location

The three keys to retailing success are location, location and location (Pearson, 1991). Several researchers have attempted to investigate the importance of location as a major determinant of performance. Bronson and Morgan (1998) studied the relative performance of independent business locations versus franchised business locations examined the travel industry. The study found that franchised locations are found to have significantly higher sales, adjusted for the number of employees, than similar independent business locations. Higher sales are argued to be the result of the franchisee's ability to realize economies of scale.

Location within a single large population center has a substantial positive effect on business volume and a lesser effect on profits (Schmenner, 1994). Proximity to customers was valued by many firms, especially those in retail franchise, which open for many hours per week and have high capital labor costs. Hise, Kelly, Gable and McDonald (1983) did find that mall size was positively, although not significantly, related to sales volume and contribution margin for outlets within a retail chain.

Micro-location, in terms of location in a mall, is also a very important, positive influence on franchise performance for the system studied here. The study done by

Fenwick and Strombom (1998), indicates that three aspects of franchised outlet location were measured as potential influences on franchisee performance: namely large population center, location in mall and availability of parking within 100m of each outlet. The research found that outlets located within metropolitan centers are predicted to achieve higher standardized sales, mean annual increase in sales and return on total assets.

Location within a shopping mall is also highly likely to increase performance on all of these measures. Significantly, Fenwick and Strombom did mention that the hypothesis 'location in mall' has been accepted as it appears to be twice as important as large population center in influencing predicted standardized sales, but these two independent variables have a similar level of influence on predicted return on total assets. Also notable that location in mall is the only variable with any predictive value for mean annual growth in sales. These findings, thus, disprove Fenwick and Strombom's Hypothesis: franchised outlet performance is found to be positively related to population density of the immediate location. This hypothesis is confirmed: franchised outlets located in malls have higher performance than those not located in malls.

2.3.6 Marketing Strategy

There are four categories of major marketing variables that a manager has some ability to control. Often called the 4 Ps, the controllable elements on a marketing program are the product offering, price, promotion and place (or distribution) (Boyd, Walker, Mullins and Larreche, 2002). The following discussion will be based on 3 "P"s namely product brand name, advertising / promotion and price. The other "P" of marketing mix i.e. place (which refers to marketing channel) is

not included in this study because restaurants provide service at particular locations without intermediaries.

The American Marketing Association (AMA) defines, brand as a name, term, sign, symbol or design or a combination of action intended to identify the goods or services of one seller and differentiate from those of competitors.

A study done by Clancy (2001) regarding consumer behavior indicated that brands have lost their power to provide distinctive reasons for customers to prefer one brand over another. In 28 of 37 categories of the study done by Clancy, consumers view low price as more important than brand name. However, the Shane and Spell (1998) study of factors for new franchise success, suggested that franchisees should seek new franchisors who are developing strong brand names. According to the findings, the system that have reached a large number of outlets relative to their industry average are more likely to develop strong brand names.

With regards to advertising, Clancy mentioned that some brands in highly commoditized categories have been built with relatively little advertising. For example Starbucks. Their brand messages are consistent throughout their communications, from packaging and customer service staff to public relations and advertising. Caves and Murphy (1976), found that economies of scale largely account for the franchises' competitive advantage if compared with the independent location. Scale economies can be found in a number of areas in a franchise – for example, advertising, management information system, purchasing, and so forth.

The ability to differentiate a product or service through advertising should result in increased sales. The ensuing need to purchase larger quantities from suppliers suggests that the firm's bargaining power with suppliers will increase, resulting in lower unit costs for inputs and increased efficiency. Increased sales also permit the firm to amortize the cost of design, advertising, and so forth over a larger number of units, further reducing costs and increasing efficiency (Bronson and Morgan, 1998). Thus, scale economies are the key economic incentive for both the franchiser and the franchisee, compared to independent business.

2.3.7 Complaints

According to Shishi Kumar's (2001) study, complaining is one of the visible growing industries in the nineties and continues to grow. Day and Landon (1997) in their study regarding the nature of dissatisfaction and complaint process mentioned that, dissatisfaction is recognized as the primary determinant of legitimate consumer complaint. Firms that have developed a reputation for consistently remedying customer complaints are more likely to develop customer loyalty and over time, may increase their market share. Conversely, firms that have developed a reputation for not willing to remedy their customer complaints may slowly lose many of their customers (Blodgett, 1993).

Andreasen (1977), reported that as many as one in five purchase experiences results in dissatisfaction. Similarly, Day and Bodur (1978) and Day and Ash (1979) reported frequent incidences of dissatisfaction for durable products. United States Office of Consumer Affairs, Technical Assistance Research Programs or TARP (1979) estimated that 96% of dissatisfied consumers did not complain to the

offending firm. A consistent finding from the literature is that most dissatisfied consumers never bothered to complain (Michael, Leonard & Yadav, 2000).

In this study, we would suspect a negative relationship between complaints and performance. Complaints are a reflection of dissatisfaction with the food, service etc.

2.3.8 Performance

There are many performance measures found in previous research to measure the success of a company. Success can refer to the effectiveness of an enterprise or outlet in accomplishing its objectives. Literature suggests that average net profitability, average sales growth and satisfaction to be the most common measures of franchise's outlet or venture performance.

Fenwick and Strombom (1998) used annual sales per square meter, return on total assets, mean annual change in return on total assets and mean annual change in sales to measure franchise performance within a well-established New Zealand retail sports goods franchise.

Nash (1984) claimed that profitability is the best indicator to identify whether an organization is doing things right and hence profitability can be used as the primary measure of organization success. Further, Doyle (1994) pointed out that profitability is the most common measure of performance in Western companies. Abu Kassim, et al. (1989) found that sales, sales growth, net profit and gross profit were among the financial measures preferred by Malaysian manufacturing firms. Hashim (2000), in his two research papers on Malaysian's small and medium-size

enterprises (SMEs), used financial profitability and growth as measurements of organizational performance.

2.4 Summary

The choice of theory for the study of franchise system is between resource-based theory and agency theory. Seven major factors that determine the success of the franchise system have emerged through investigation of previous research. The seven major factors are –franchisees' background characteristics, family support, strictness terms and condition, the franchisor-franchisees or the area manager-plant manager relationship, outlet location, marketing strategy and customers' complaints. These factors form the basis of the research framework for the present study.

THEORETICAL FRAMEWORK AND RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the theoretical framework and research methodology, used to investigate the factors determining the success of food restaurant franchising. There are nine sections in this chapter.

The following section provides the theoretical framework of this research and is followed by statements of hypotheses relevant to this study. The next section will discuss the research design. This is followed by a discussion on the choice of sample, data collection method, questionnaire development, measurements and statistical methods. A brief summary will be given at the end of this chapter.

3.2 Theoretical Framework

The theoretical framework presents the interrelationships among the variables that are relevant to the phenomenon under study (Sekaran, 2000). This research attempts to investigate the relationships between factors that determine the success of food restaurant franchising. The theoretical framework is useful to postulate or hypothesize and test certain relationships so as to improve the understanding of the dynamics of the situation (Sekaran, 2000).

Figure 3.1. shows the theoretical framework of this study. The dependent variable in this study is franchisee's outlet or venture performance. For this study venture performance is measured by profitability, sales growth and franchisees' or plant managers' level of satisfaction with the business.

This study will use the resource-based and agency theories, which theorizes that organizations can create competitive advantage by using its resources, tangible and intangible. An organization that possesses and utilizes resources to it's best advantage will achieve high performance.

Thus, the independent variables in this study will be resources: educational level of franchisees or the plant managers, time spent in outlet, family support for the business, sources of food supplies, frequent visits of franchisor or area manager to franchisees' outlet, strong relationship between franchisor-franchisee or franchisor/area manager with plant manager/supervisor, population base of the outlet, location in mall, advertisement/promotion and customer complaints of food and services.

Independent Variables

Dependent Variable

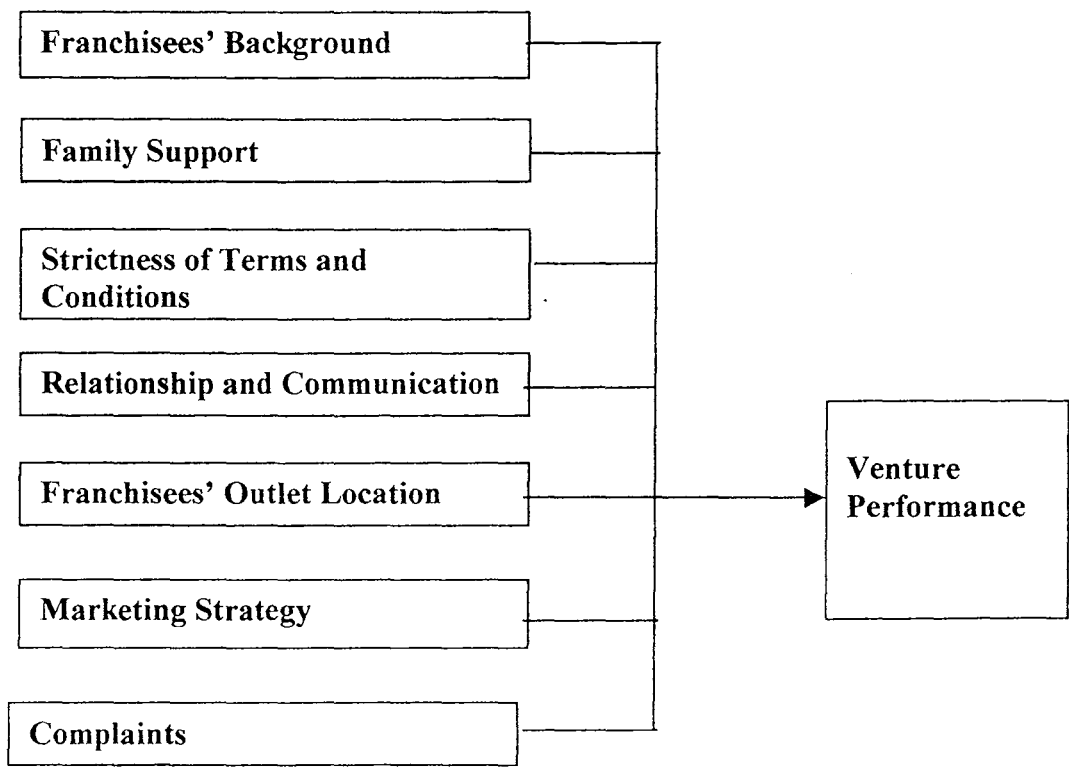


Figure 3.1 Schematic diagram of the Research Model.